

The Capital Shift: How Data Center Owners Can Reap the Benefits

The specialized nature and operational complexity of Data Centers have long kept them a backwater of commercial real estate investment. The rise in prominence of the so called 'Digital Economy' has put a spotlight on the real infrastructure supporting this 'new economy', causing a paradigm shift in real estate investment strategies. Over the past 10 months, we have seen commercial real estate investors pivot their investment strategies away from traditional real estate asset classes in search of stable, yield-producing, safe havens for their capital. As a result, Data Centers have become the darling of the investment world, attracting a tremendous amount of capital inflow as investor demand for Data Centers has skyrocketed.

Dr. Peter Linneman (CEO & Founder of American Land Fund) published a study in late 2020 asserting that capital flows directly impact the cap rates and valuation of assets. The assertion, backed by evidence cited in "The Linneman Letter" (a quarterly publication on industry trends), is based on simple supply and demand dynamics. Throughout the net lease marketplace, we have seen the theory at work, with capital flows increasingly chasing constrained supplies of 'in-demand' product, boosting their valuations dramatically.

"Forecasting property acquisition yields, commonly called "cap rates," is a key part of commercial real estate investing. The goal is to buy when yields are high (and property values are low) and sell when yields are low (and property values are high)."

– The Commercial Property Executive

This phenomenon is seen nowhere more clearly than in the Data Center Market, as new investors have taken aim at a limited supply of high-quality assets. What does this all mean for Data Center owners? Simply put: owners of high-quality, fully leased Data Centers currently hold a historic level of pricing power in the marketplace and can leverage this power to maximize the value of their underlying real estate. Investors are well capitalized and eager to enter the market, allowing owners to engage in flexible and advantageous deal making, through either disposition, sale-leaseback, or partial sale-leaseback structures. With market dynamics strongly in the seller's favor, now is the time for existing Data Center owners to explore and unlock the true value of their assets.

“ Owners of high-quality, fully leased Data Centers currently hold a historic level of pricing power ”

- Increase in investor demand boosting DC valuations



- Complexity of DC Development causes lag in ability to meet rapid demand with new supply



- Constrained supply of high-quality assets in market



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